



CITY OF HOUSTON

Finance and Administration
Department

Interoffice

Correspondence

To: Lee P. Brown, Mayor
Members of the City Council

From: Philip B. Scheps
Director

Date: October 25, 2002

**Subject: SEPTEMBER MONTHLY FINANCIAL
AND OPERATIONS REPORT**

Background

The purpose of this memorandum is to discuss the City's interim financial results as of September 30, 2002, representing three months of FY03. Preliminary FY02 results have been shown in the column headed "Preliminary FY02 CAFR". The table on page 7 summarizes the full year projections as compared to the current budget for the General Fund.

Beginning Balance

The Controller's FY2002 Preliminary CAFR includes an undesignated ending balance of \$83.3 million, an increase of \$1million from last month. The primary reason for this increase is an adjustment in Municipal Courts revenues and a decrease in Building Services expenditures.

General Fund Revenue

Property Tax - The revenue shortfall (relative to the adopted budget) remains as reported last month at \$6.7 million. The primary reason for the shortfall is the certified tax roll which was approximately \$1.5 billion below the budgetary assumption, plus other adjustments related to updated TIRZ contributions and delinquent tax collections.

Sales Tax - The sales tax revenue projection remains as reported last month. No additional information has been received that would prompt a change at this time.

Interfund Transfers - The reduction in direct interfund transfers from Aviation remains as reported last month at \$6 million. While a reduction in this "pass through" revenue and expense in the General Fund will have no economic effect, it will make both revenue and expense appear to be overstated relative to budget. The Administration has reduced the HPD budget appropriation by \$6 million initially, transferring the appropriation to General Government. This change appears in the current budget column. An additional reduction of \$2 million will be reported next month based on the most recent estimates from Aviation. This amount could be further refined in either direction (i.e. more or less in HPD's budget).

Municipal Courts Revenue - The year end projection for Fines and Forfeitures revenue has been reduced by \$5 million. Although traffic ticket issuance continues to outpace last year's level primarily due to the new traffic enforcement division (refer to page 64), revenue on a per ticket basis has declined. As discussed at the Fiscal Affairs and Management Initiatives Committee

Meeting on October 1st and again on October 15th, a combination of factors have contributed to this decline including lagging parking violations and lagging collections compared to an aggressive budget. The renegotiated contract with the delinquent collections contractor and the state program to connect delinquents to drivers license renewal is scheduled to come to City Council next week.

General Fund Expenditures

All departments continue to be projected at budget. The \$6 million adjustment to the HPD budget is shown as a difference between the adopted budget column and the current budget column. As discussed above, an additional \$2 million adjustment associated with airport security will be reported in the next report.

The General Government account is projected to spend \$639,000 less than the adopted budget, due primarily to an adjustment in interest cost as a result of the favorable TRANS borrowing.

General Fund Ending Balance

The projected ending balance is \$95.1 million. This includes the assumption that insurance proceeds will be added to the Rainy Day Fund by year-end. The undesignated fund balance is projected to be \$72.3 million, which is a decrease of \$11 million from the undesignated beginning balance.

Enterprise Funds

Aviation – Revenues for the Houston Aviation System are expected to be slightly below the FY03 Budget as a result of passing on declining security costs to the airlines in the form of reduced landing fees. Based on the FY03 rates and charges, landing fees are projected to fall approximately \$6.1 million less than budget. Miscellaneous income is projected to increase \$2 million due to a grant from the Transportation Safety Administration. Expenses are projected to be lower because police overtime is being reduced another \$2 million, now resulting in a total reduction of \$8 million less than budget. Contract security services are being reduced by \$1 million, resulting in a total reduction of \$9 million in Service expenses compared to the adopted budget.

Convention and Entertainment – Under the Current Budget column, Interfund Transfers increased by \$3 million, however, a corresponding decrease of \$3 million in Services did not properly post but will be corrected in October. The Controller and F&A projections reflect the proper changes.

Water and Wastewater – For the first three months of the year, water and sewer revenues are 9.5% below budget. As a result, projected revenues for both water and sewer have been reduced by \$2 million each.

Other Items of Interest

Cash Management - As reported last month, a short-term secondary TRANS borrowing of \$15 million occurred on October 24th. A second borrowing is anticipated October 31st for \$15 million and another on November 7th for \$10 million. If you recall, the short-term secondary borrowing last year was \$30 million in October and an additional \$8.8 million in November. The borrowings will occur only if needed and could be less than planned depending on the timing of actual receipts and disbursements.

Performance Measures - The trend section of the monthly report has been reorganized to add additional detail in areas which have been historically problematical. In particular, additional detail on municipal courts revenue, ambulance revenue, interfund billings, CIP cash flow, and fire staffing has been added.

Please contact me for additional information.

A handwritten signature in black ink, appearing to read 'P.B.S.', is positioned above a horizontal line.

Philip B. Scheps
Director

c: Sylvia R. Garcia, City Controller
Albert E. Haines, Chief Administrative Officer